



WORLD BANK GROUP
Social Protection & Jobs

ACTIVATION POLICIES

BEST PRACTICES AND INSIGHTS

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Activation Policies - Agenda

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- Activation policies - policies instruments
- Benefit generosity
- Benefit generosity - insights
- Effective tax rate on entering employment
- Effective tax rate - insights
- Eligibility conditions and obligations of benefit recipients
 - Benefits eligibility criteria strictness indicator
 - Availability requirements and work criteria
 - Job-search and monitoring requirements
 - Registration procedures
- Balance between activation policies
- Financial work incentives
- Impact of activation policies on unemployed
- Sanctions provisions
- Impact of sanctions on jobseekers
- Conclusions

Activation policies - definition

OECD broadly defines activation policies as a **combination of policy tools** that support and incentivize

- **job search** and job finding,
- **productive participation in society**, and
- becoming and remaining self-sufficient and less dependent on public support.

Eurostat defines activation policies as **policies designed to encourage unemployed to step up their job search** after an initial spell of unemployment, by making receipt of benefit conditional on participation in programmes.

Activation policies - policies instruments

The menu of policy instruments includes

- i.** measures that aim at strengthening the motivation for making use of existing earnings opportunities (e.g., work incentives, job- search requirements, benefit sanctions);
- ii.** training and related active labor market programs (**ALMPs**) that seek to improve the capabilities of jobseekers and other activation “clients”; and
- iii.** employment services and programs that support labor demand by expanding the set of earnings opportunities available to jobseekers (e.g., wage subsidies, direct job creation).

Benefit generosity

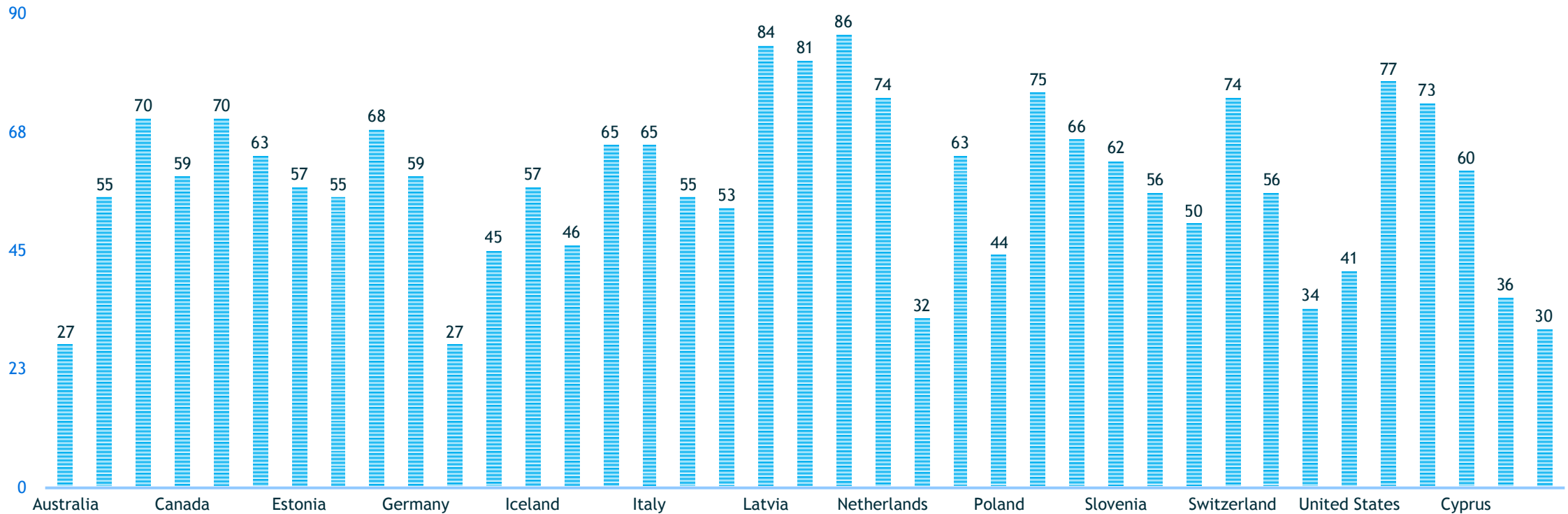
For those entitled to unemployment benefits (UB), a simple way of summarizing many of the relevant policy parameters is by means of benefit net replacement rates (NRR)

NRR express net income of a beneficiary as percentages of net income in a previous job.

NRR in unemployment measures the proportion of previous in-work income that is maintained after 1, 2, ..., T months of unemployment.

Benefit generosity

NRR - Single with no children, 2 months, % of average wage - 2018

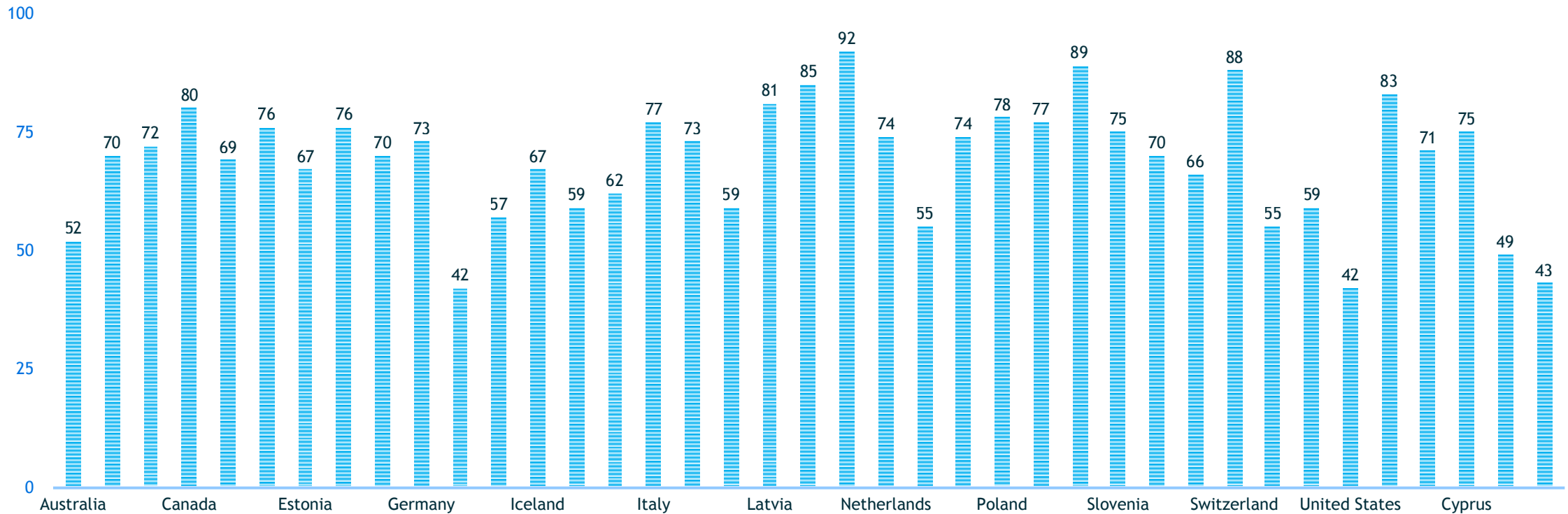


Methodology note:

The indicator is the ratio of net household income during a selected month of the unemployment spell to the net household income before the job loss. Calculations refer to a jobseeker aged 40 with an uninterrupted employment record since age of 19 until the job loss. Guaranteed Minimum Income (GMI) benefits are included in the calculations subject to relevant income and eligibility conditions.

Benefit generosity

NRR - Single with children, 2 months, % of average wage - 2018



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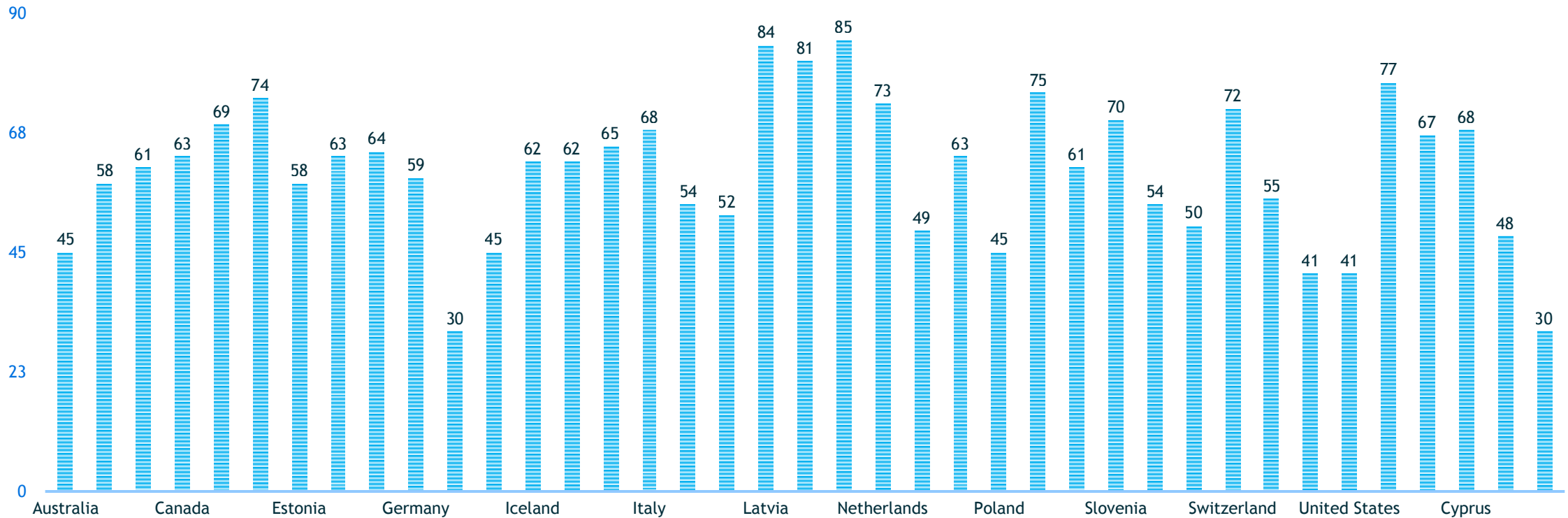
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Calculations for families with children are for families with two children aged 4 and 6. Neither childcare benefits nor childcare costs are considered.

Benefit generosity

NRR - Couple with no children, 2 months, % of average wage - 2018



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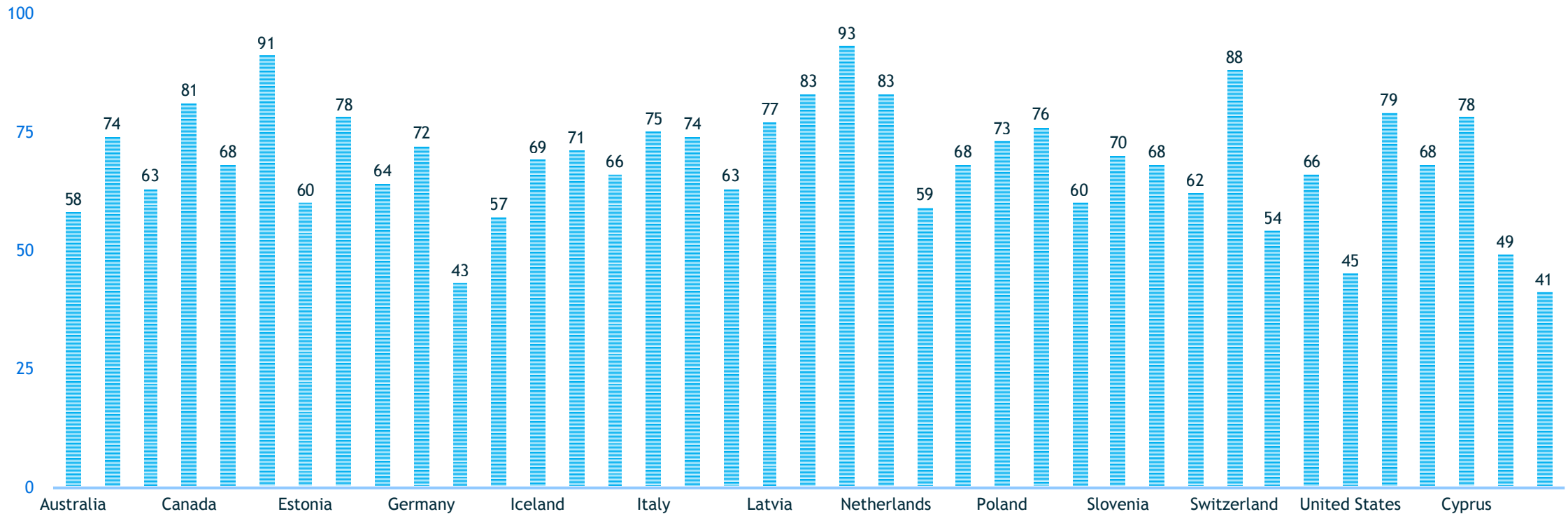
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The second adult member is also assumed to be out of work.

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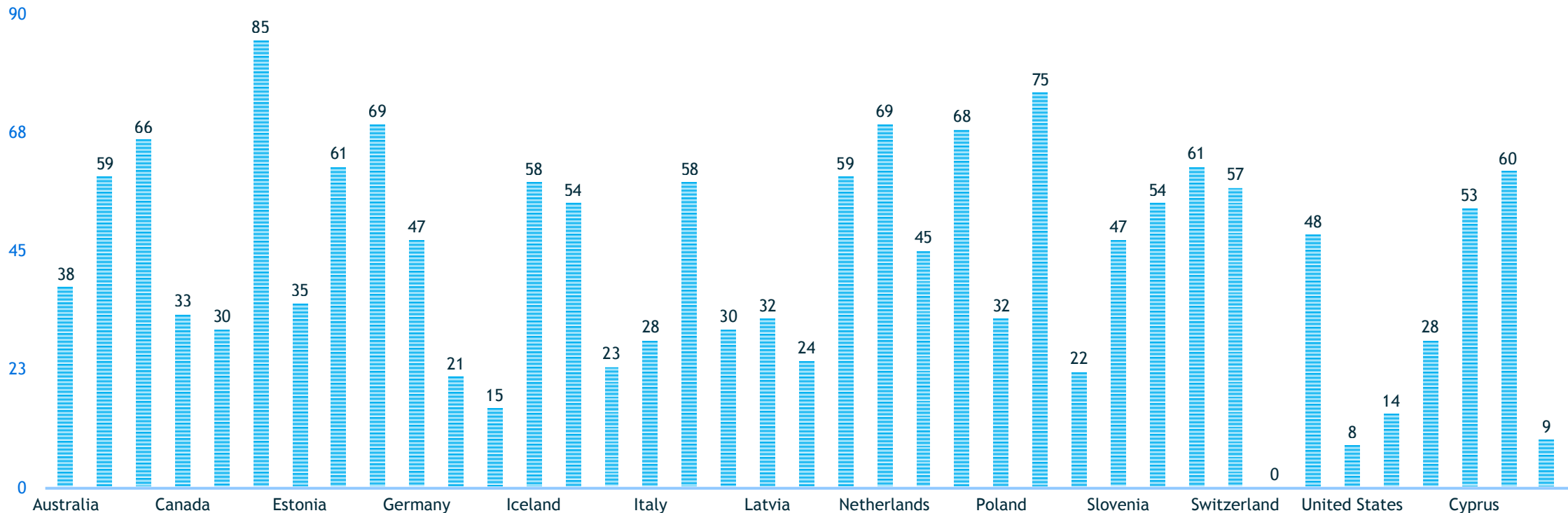
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Benefit generosity

NRR - Single with no children, 24 months, % of average wage - 2018



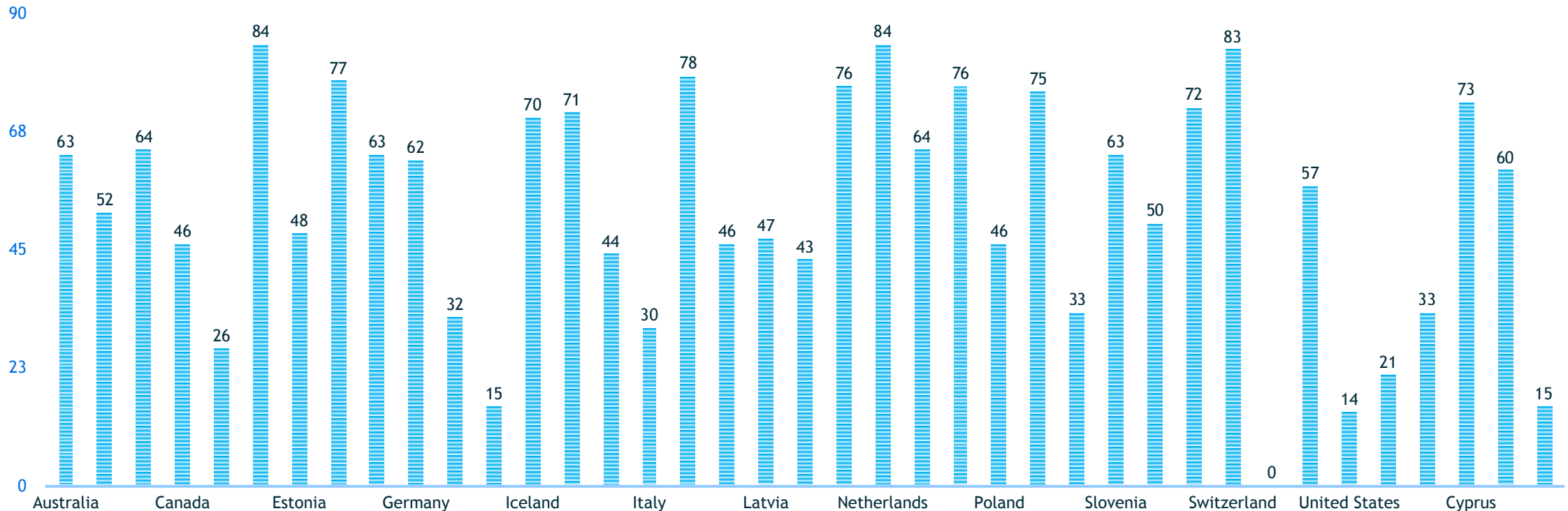
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NRR - Couple with no children, 24 months, % of average wage - 2018



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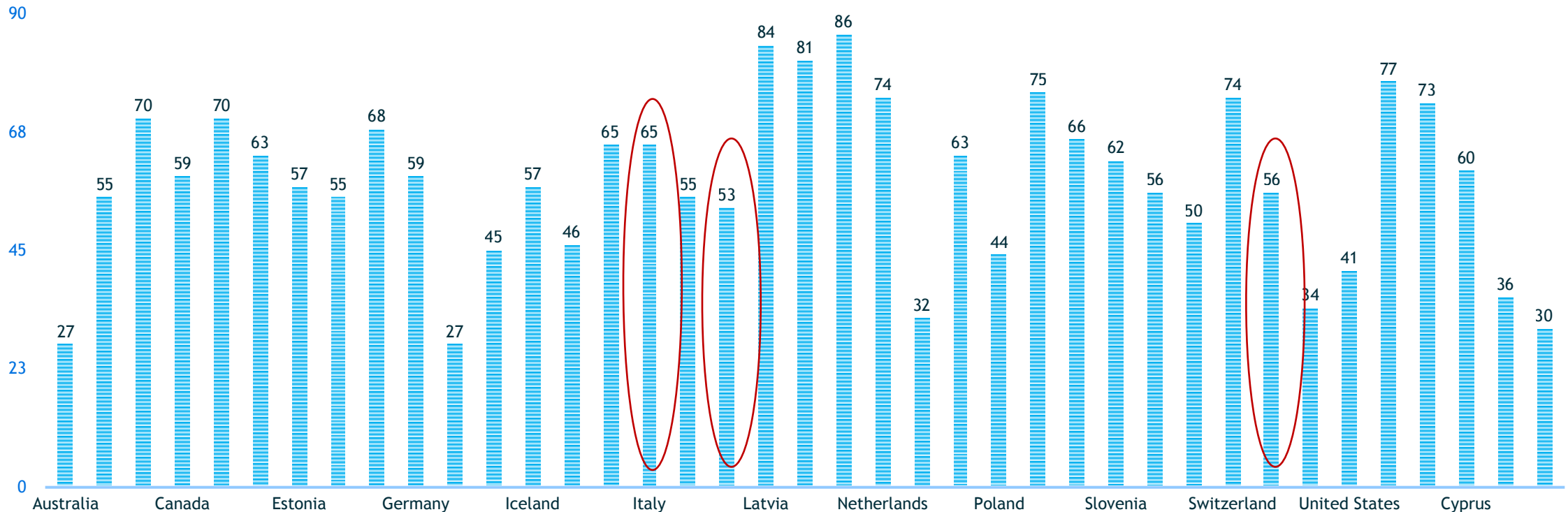
The second adult member is also assumed to be out of work.

Benefit generosity - insights

- In close to half of OECD countries, those who lost their job early on during the financial crisis and were entitled to UB had **NRR above 60% in the first year of unemployment.**
- Australia, Ireland, New Zealand, the United Kingdom operate unlimited means-tested unemployment assistance benefits, resulting in a **constant NRR over time.**
- **NRR is always higher** for couples or individuals with **children.**
- **NRR typically decline during the unemployment spell.** Long-term unemployed in **Italy, Korea and Turkey** lose their entire UB after 12 months or less.

Benefit generosity - insights

NRR - Single with no children, 2 months, % of average wage - 2018

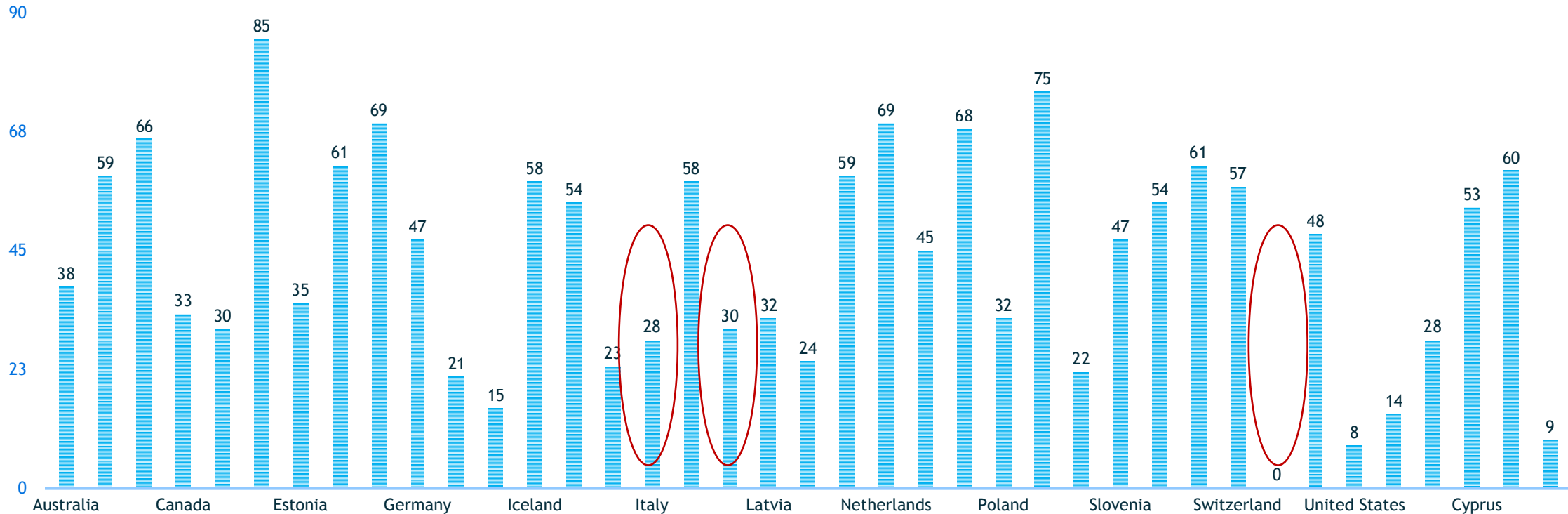


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Effective tax rate on entering employment

The **Effective tax rate on entering employment** indicator measures the **proportion of earnings** that are lost to either higher taxes or lower benefit entitlements **when a jobless person takes up employment**.

It is commonly referred to as **Participation Tax Rate (PTR)** as it measures financial disincentives to participate in the labor market.

PTR indicates the **effective tax rate** on the extensive margin, or the proportion of earnings paid as taxes and lost due to benefit withdrawal if a person moves from inactivity or unemployment to work. PTRs is typically **between 0% and 100%**, with **higher rates implying weaker incentives to work**.

Effective tax rate on entering employment

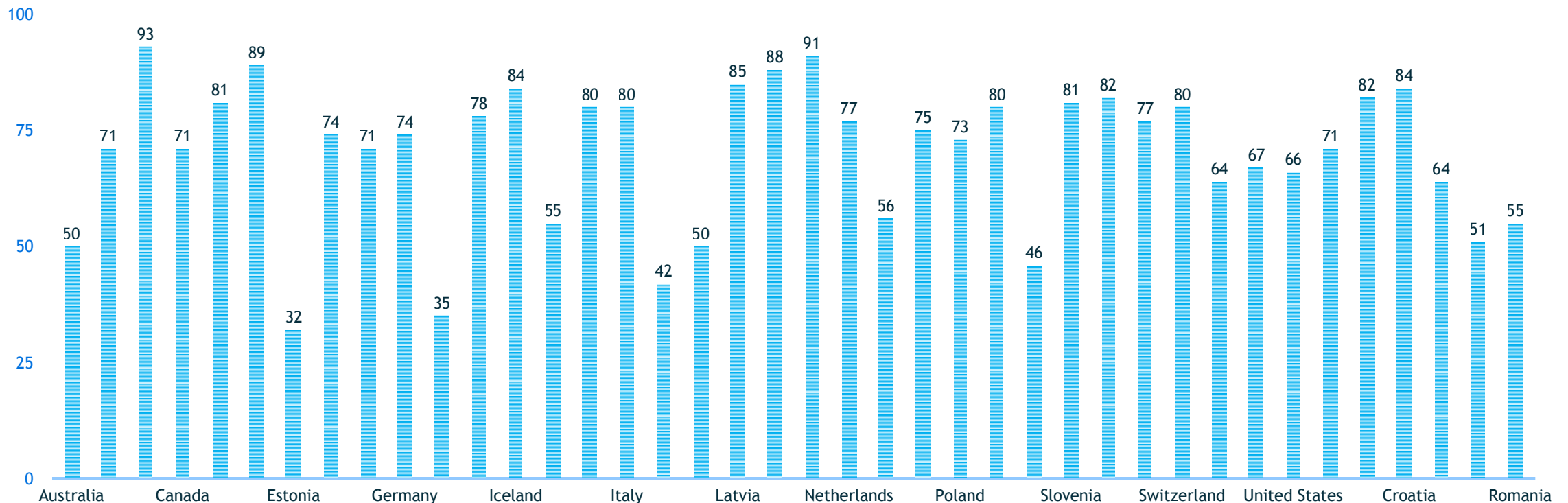
Relationship between PTR and NRR

- While the degree of income maintenance as expressed by the NRR is a useful indicator regardless of the number of earners in the household, the **PTR is a better indicator of the influence of the Tax-Benefit system on financial work incentives.** It relates the change in net household income to the change in gross earnings and is therefore not directly affected by the level of any earnings received by other household members.
- For an unemployed person who is single or lives in a household where nobody else has any income from work, there is a straightforward relationship between the PTR and the NRR: for those with high NRRs, net incomes during unemployment are not much lower than during employment. When moving back into work, they will thus tend to see only small increases in net income and, hence, have high PTRs as well.

Effective tax rate on entering employment

Main out of work benefit: Unemployment benefits

PTR - Single with no children, 2 months - 2019



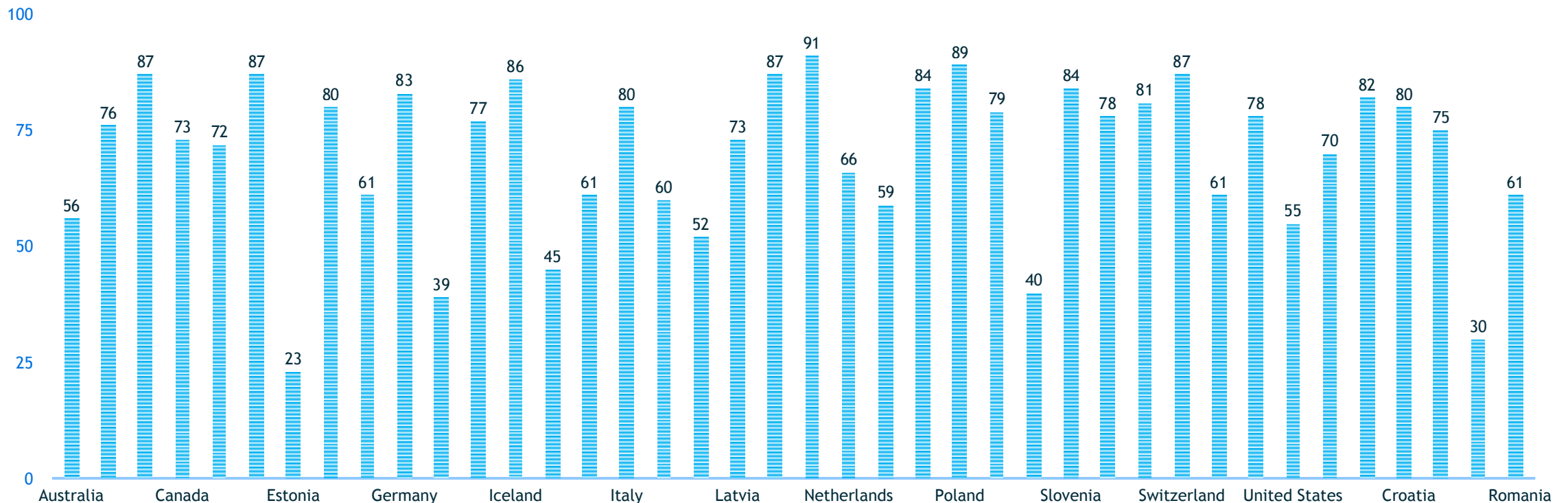
Methodology note:

The numerator is the change in tax liabilities and benefit entitlements when one family member moves into work. The denominator is the earnings of the person moving into work. Calculations assume entry into full-time work.

Effective tax rate on entering employment

Main out of work benefit: Unemployment benefits

PTR - Single with 2 children, 2 months - 2019



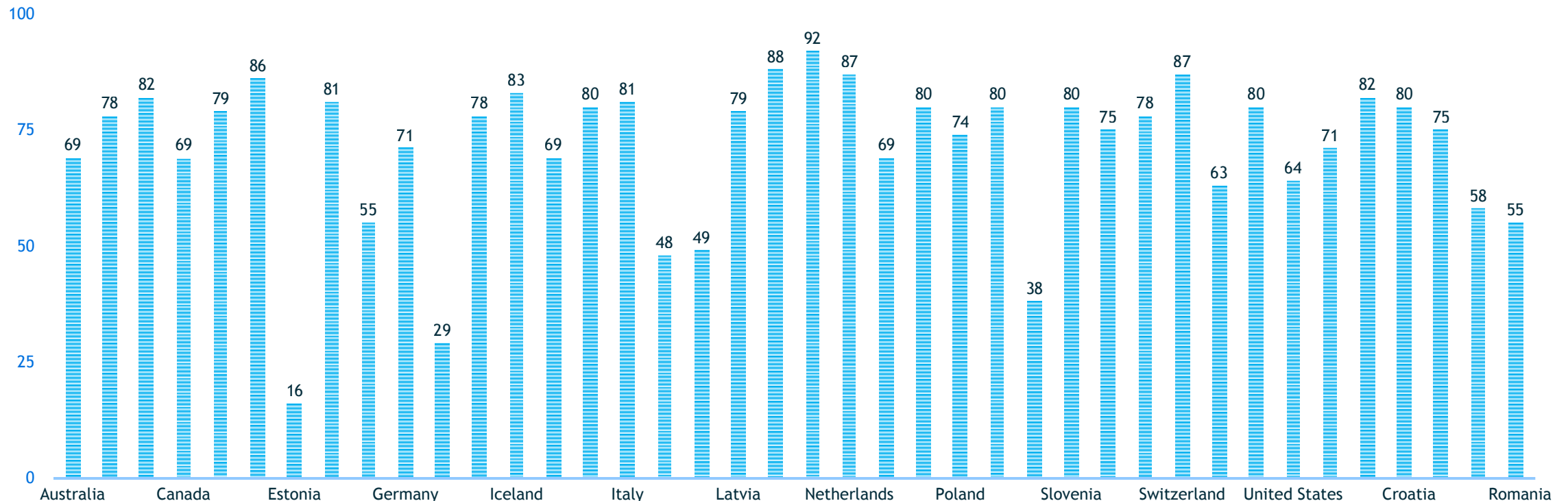
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Effective tax rate on entering employment

Main out of work benefit: Unemployment benefits

PTR - Couple without children, partner out of work - 2 months - 2019



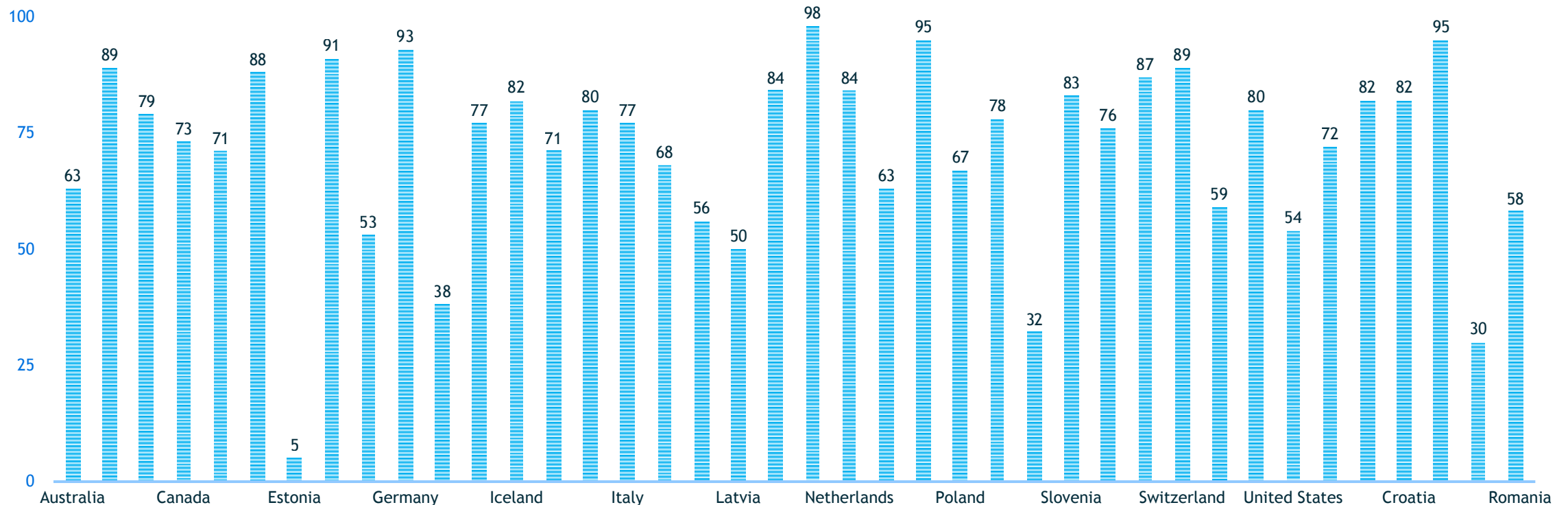
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Effective tax rate on entering employment

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PTR - Couple with 2 children, partner out of work - 2 months - 2019



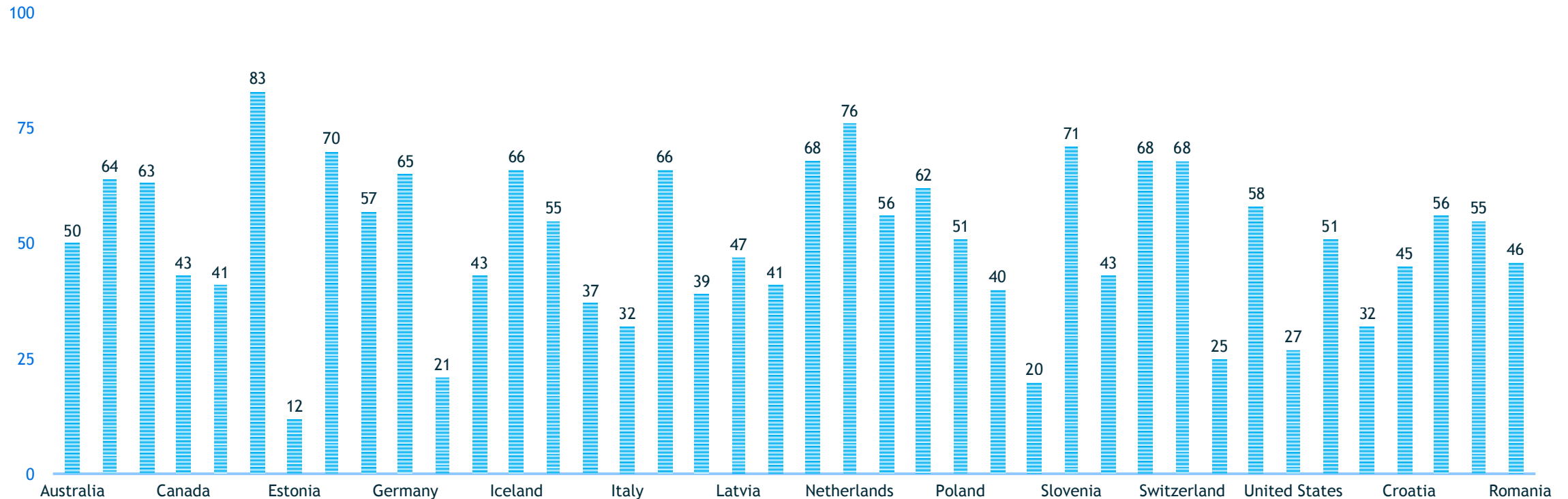
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Effective tax rate on entering employment

Main out of work benefit: **GMI**

PTR - Single with no children, 2 months - 2019



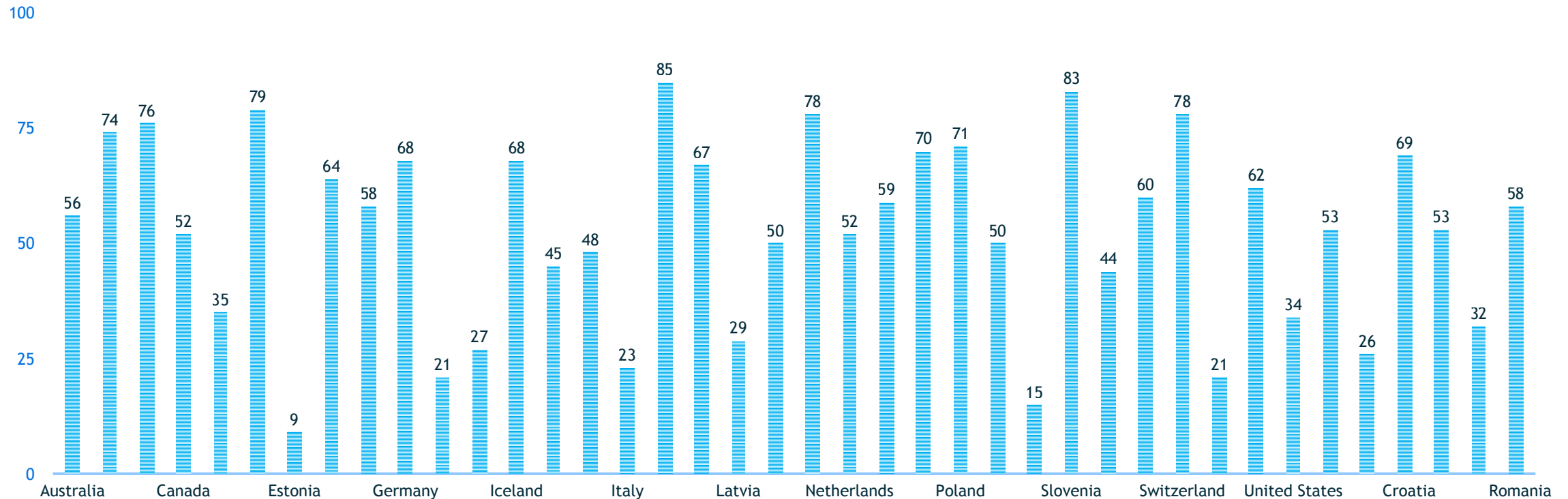
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Effective tax rate on entering employment

Main out of work benefit: **GMI**

PTR - Single with 2 children, 2 months - 2019



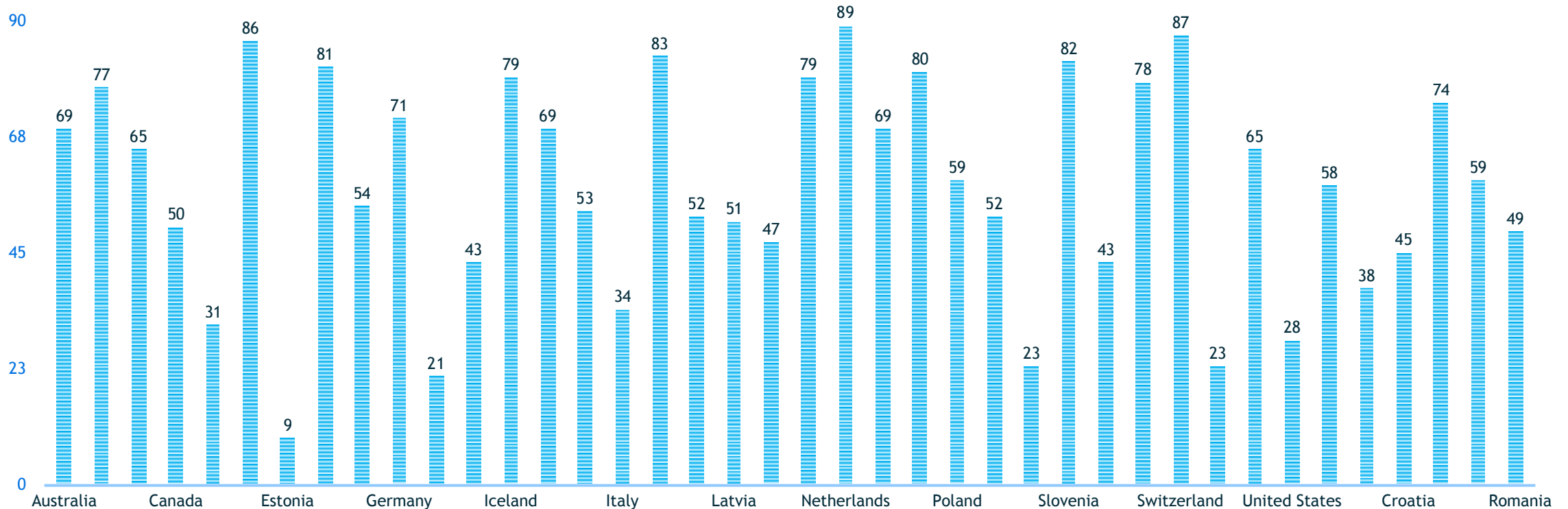
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Effective tax rate on entering employment

Main out of work benefit: **GMI**

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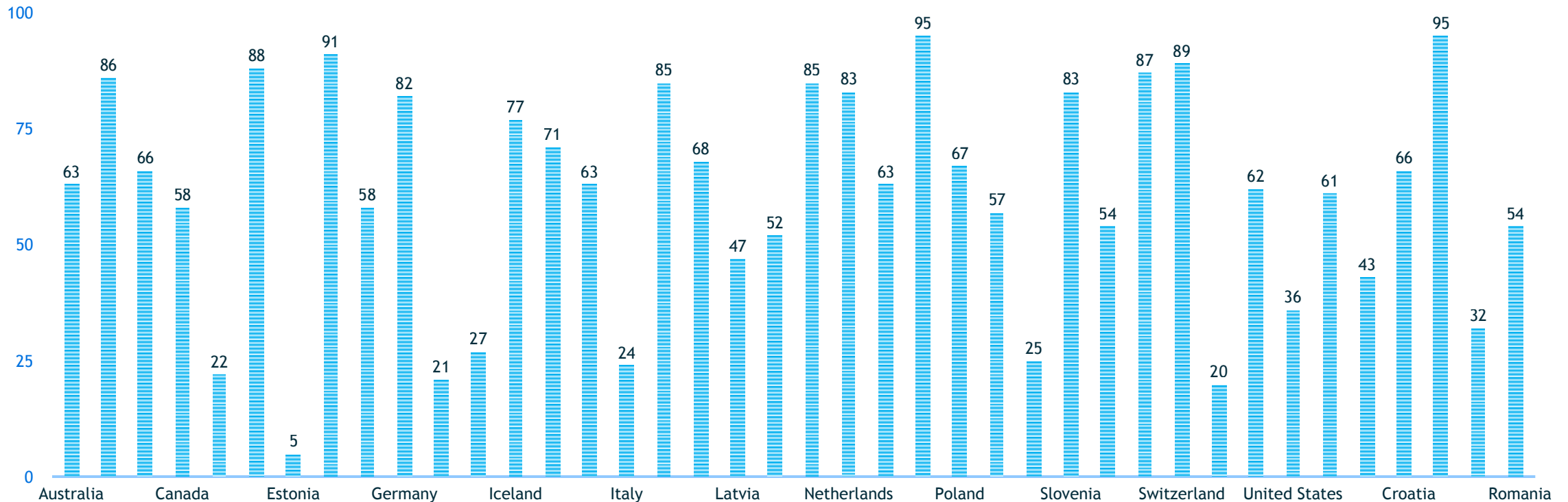
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Eligibility conditions and obligations of recipients

Benefit receipt is not simply a choice but is associated with more or less well-defined **eligibility conditions**.

Individuals with short or interrupted employment histories may not qualify for UB, while those with assets may be excluded from receiving means- tested benefits.

Those entitled in principle typically have to comply with specific behavioral requirements, notably **active job- search**.

A 2011 joint project between the OECD and the European Commission has collected qualitative information on the strictness of eligibility criteria for UB in 36 OECD and EU member countries.

The study covered **four categories of eligibility “strictness”**, with one or more sub-categories.

Eligibility conditions and obligations of recipients

1. Entitlement or eligibility conditions:

- i. employment/contribution requirements.
- ii. sanctions for “voluntary” unemployment.

2. Availability criteria:

- i. Availability requirements during ALMP participation.
- ii. Suitability of job offers: Required occupational, geographic and other mobility.

3. Job-search requirements and monitoring procedures:

- i. Frequency of job-search activity
- ii. Documentation of job-search activity

4. Sanctions for failing to comply with behavioral requirements:

- i. Sanctions for refusing to accept a suitable job or participation in ALMP.
- ii. Sanctions for repeated refusal of job or labor market program.

Eligibility conditions and obligations of recipients

Entitlement or eligibility conditions

To be entitled to unemployment insurance benefits, claimants are typically required to have a minimum employment or contribution record. Individuals with shorter employment records or less continuous work histories are not covered.

Unemployment assistance may be available to those not (or no longer) entitled to insurance benefits, but is subject to a means-test, limiting entitlement to those living in households with no or little income or assets.

Eligibility conditions and obligations of recipients

Availability criteria

These criteria determine, put briefly, under which circumstances claimants can restrict their availability for work without losing their right to benefits.

They are divided in **four sub-categories**.

- i.** Availability during ALMP participation.
- ii.** Occupational mobility requirements
- iii.** Geographical mobility requirements
- iv.** Other valid reasons

Eligibility conditions and obligations of recipients

Job-search requirements and monitoring procedures

While self-motivated jobseekers will often engage in effective job-search strategies, regular monitoring of independent job-search efforts is commonly used to ensure that benefit recipients actively search for work throughout their unemployment spell.

They are divided in **two sub-categories**.

- i. **Frequency of job-search activity.** The required frequency of job-search activities can range from once per week to once in six months.
- ii. **Documentation of job-search activity.**

Sanction Provisions

Sanctions for failing to comply

In most countries, legislation for unemployment benefits includes the possibility of sanctions when claimants do not comply with eligibility criteria. Sanctions range from a temporary reduction of benefit payments to a complete and sometimes permanent disqualification from the benefit programmes.

They are divided in **five sub-categories**.

- i. Voluntary resignation from employment.**
- ii. Refusal of suitable employment.**
- iii. Repeated refusal of suitable employment.**
- iv. Refusal of ALMP participation.**
- v. Repeated refusal of ALMP participation.**

Benefits eligibility criteria strictness indicator

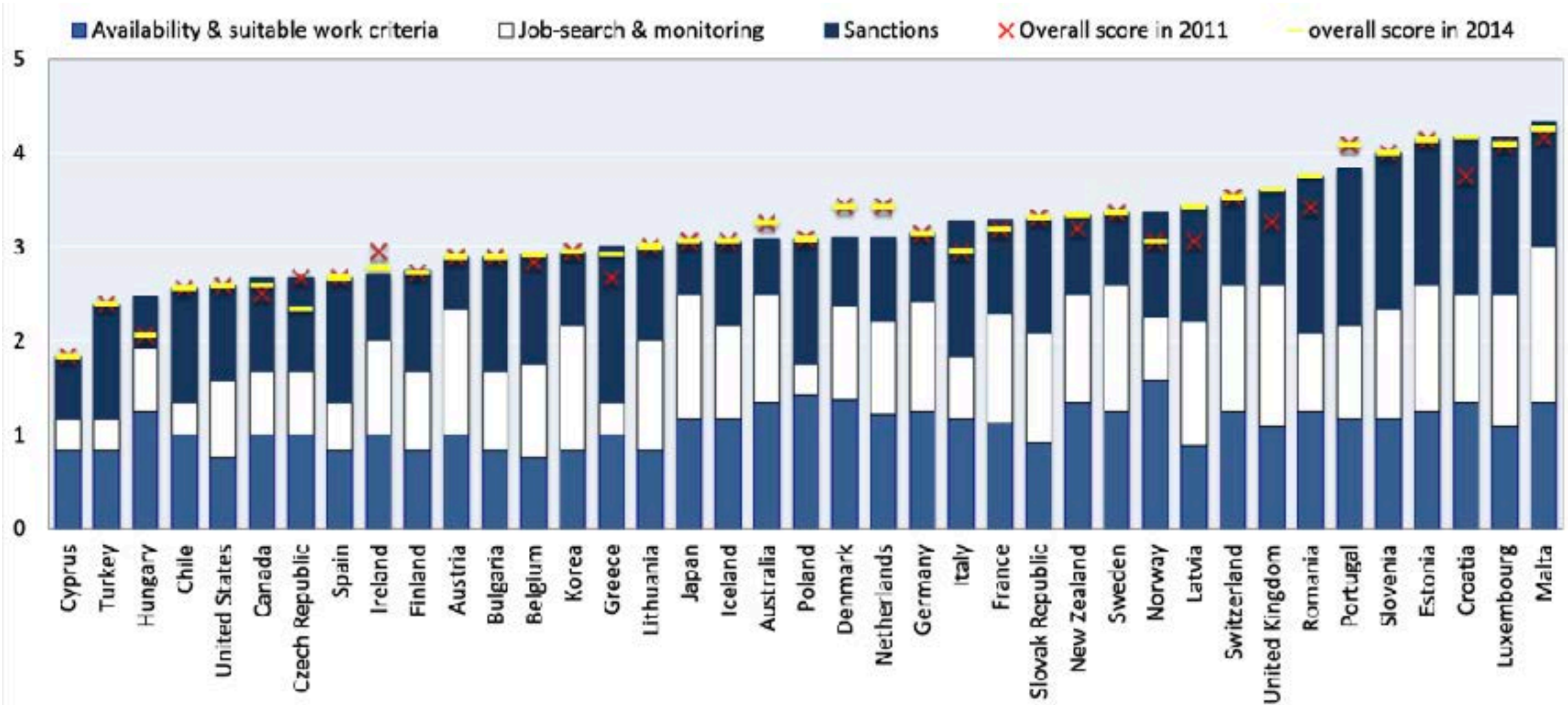
Weighting of individual items

The overall strictness indicator is calculated by aggregating the sub-indicators on availability requirements, job-search requirements and sanctions, respectively.

Sub-indicator	Item	Weight in overall summary indicator
Availability requirements		0.33
	1. Availability during ALMP participation	0.08
	2. Demands on occupational mobility	0.08
	3. Demands on geographical mobility	0.08
	4. Other valid reasons for refusing job offers	0.08
Job-search requirements and monitoring		0.33
	5. Frequency of job-search monitoring	0.17
	6. Documentation of job-search monitoring	0.17
Sanctions		0.33
	7. Sanctions for voluntary unemployment	0.11
	8. Sanctions for refusing job offers	0.06
	9. Sanctions for repeated refusal of job offers	0.06
	10. Sanctions for refusing PES activities or ALMP placements	0.06
	11. Sanctions for repeated refusal of PES activities or ALMP placements	0.06
Sum of weights		1.00

Benefits eligibility criteria strictness indicator

Scored from 1 (most lenient) to 5 (most strict), 2017 and changes since

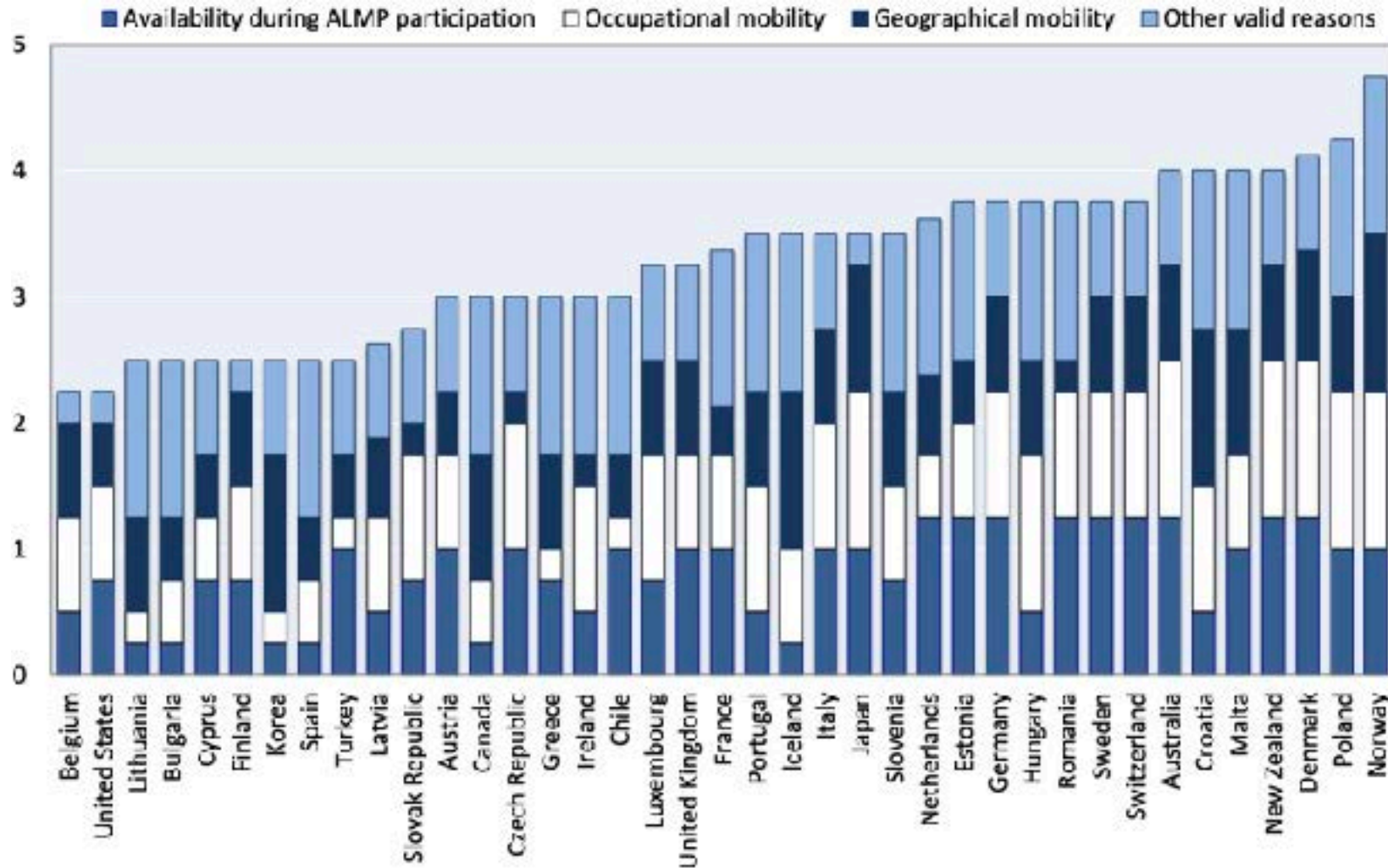


Benefits eligibility criteria strictness indicator

- Malta, Luxembourg, Croatia, and Estonia form the group of countries with the strictest eligibility criteria
- Cyprus, the Czech Republic, Turkey, and Hungary operate the most lenient rules according to the overall indicator.
- Across countries, scores for job-search reporting requirements and sanctions vary relatively strongly (a standard deviation of around 0.36), while scores for availability criteria are more homogenous (a standard deviation of 0.21). The variability of the overall strictness indicator has declined slightly compared to the 2014 compilation of eligibility rules (the standard deviation decreased from 0.58 to 0.55), **suggesting a slight convergence of strictness.**
- Changes in the overall score during the 2014-2017 period reflect substantive reforms in a number of areas.

Availability requirements and work criteria

Scored from 1 (most lenient) to 5 (most strict), 2017



Availability requirements and work criteria

- Norway, Poland, and Denmark have the strictest rules in place, followed by New Zealand and Malta.
- At the other end of the scale, with the most lenient rules, are Belgium, Greece, the US, and Bulgaria.

Availability requirements and work criteria

Availability during ALMP participation

- Unemployed workers who participate in ALMPs are generally exempt from the requirement to be available for employment in **Bulgaria, Canada, Iceland, Korea, and Spain.**
- Other countries, including Latvia, Ireland, and Croatia, impose availability requirements on selected groups (for instance, ALMP participants in Croatia are generally not classified as active jobseekers, but those participating in training programmes organized by the employment services are).
- In several countries, ALMP participants are treated like all other unemployed and hence need to be both available for and actively seeking employment. This group includes **Australia, Denmark, Estonia, Germany, the Netherlands, New Zealand, Romania, Sweden, and Switzerland.**

Availability requirements and work criteria

Occupational mobility requirements

- **Bulgaria, Canada, Cyprus, Greece, Korea, the Netherlands, Spain, and Turkey** allow workers to restrict their job search and availability to employment within their previous occupation or at a wage comparable to their earlier pay.
- **Poland, Norway, New Zealand, Hungary, Denmark, and Australia** do not permit the unemployed to reject job offers at lower wage levels or in a different occupation.
- All other countries permit such limitations only partly or only for a certain duration of during the unemployment spell.
- Generally, claimants typically cannot be required to accept jobs for which they are not qualified. Specifically In Japan, claimants can refuse jobs that are not appropriate in light of their abilities.

Availability requirements and work criteria

Geographic mobility requirements

- Jobseekers claiming benefits are typically **expected to commute** or to move to a new location **where suitable employment is available**, albeit within certain limits.
- In **Australia** commuting up to **90 minutes** each way is considered suitable. Similar commutes can be mandated in **Denmark** and **Finland** (up to 3 hours daily) but also in geographically small Luxembourg (up to 2.5 hours).
- Other countries specify commuting **requirements** in terms of the **maximum distance** rather than time (30km distance between residence and job in Greece, 50km in Bulgaria and Croatia, 30km in France).
- A third group of countries specifies **commuting requirements** in terms of **costs** (commuting costs up to a share of 20% of the expected gross salary in Latvia, 15% in Estonia).

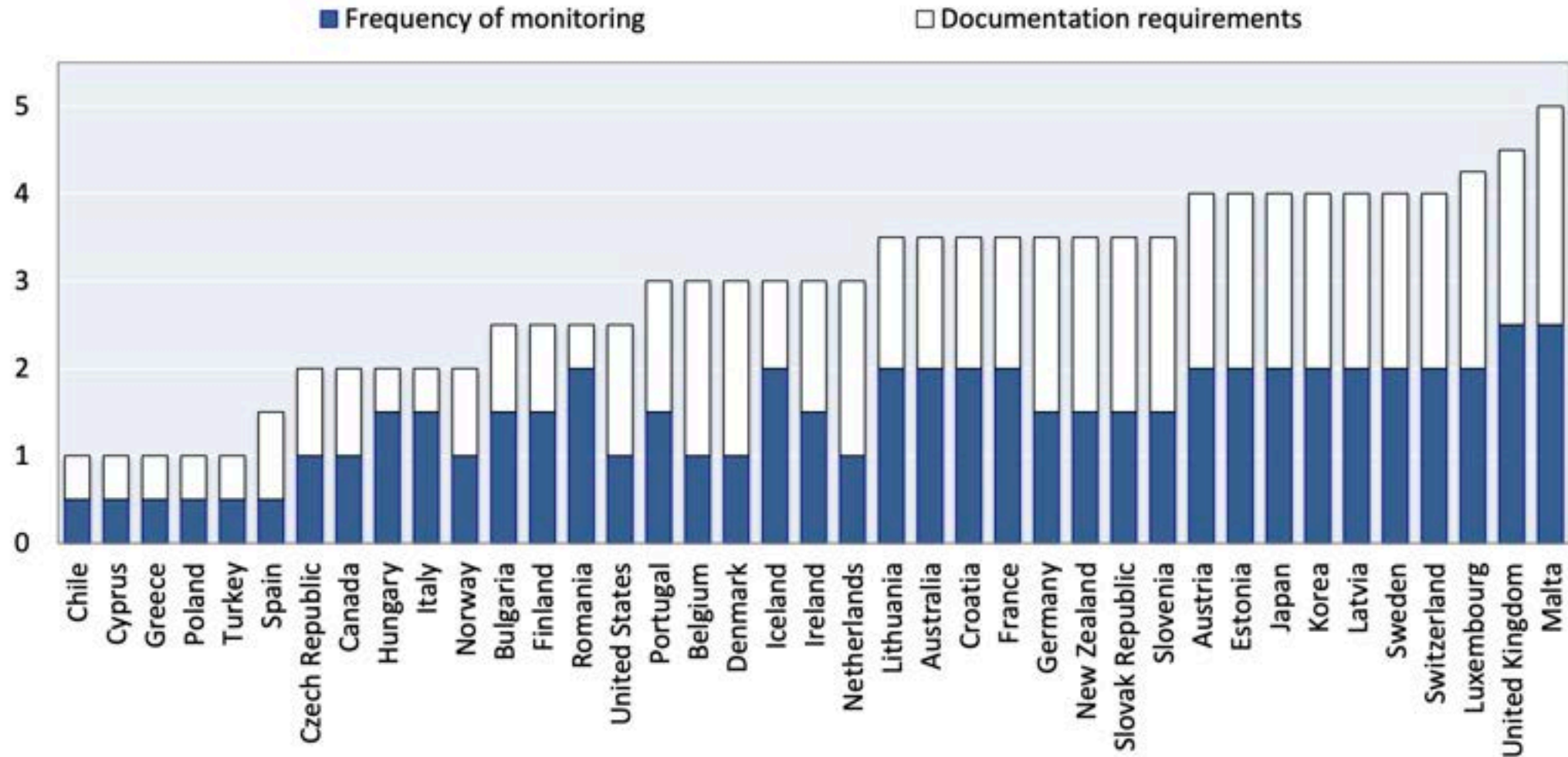
Availability requirements and work criteria

Other valid reasons for refusing job offers

- Australia and New Zealand have long and detailed lists of reasons for which a particular job would not be considered suitable. Factors taken into account include the claimant's health, family care responsibilities and access to childcare, religious or moral beliefs. In **Belgium, special exceptions apply to artists.**
- Most countries specify that employment would not be suitable if it were to replace workers engaged in **lawful industrial action.** **Germany, Japan, Korea, Austria, Finland, or Switzerland** are part of this group.
- The number and types of additional suitable-work criteria differ significantly between countries. Such differences make it hard for a clear-cut categorization.

Job-search and monitoring requirements

Scored from 1 (most lenient) to 5 (most strict), 2017



Job-search and monitoring requirements

- Two aspects factor into the stringency of job-search and reporting: the frequency at which claimants have to paper their activities and the extent to which they have to document their activities in a detailed and verifiable way.
- **Malta and the United Kingdom have the strictest job-search requirements**, followed by Luxembourg, Switzerland, and Sweden.
- The most lenient countries are instead **Chile, Cyprus, and Greece**.
- A number of countries do not require unemployment benefit claimants to provide evidence of their job-search activities.

Job-search and monitoring requirements

- In **Malta**, claimants have to document their job-search activities in detail, including not only whether employers were approached but also the employers' names and addresses, during **fortnightly** meetings.
- In the **United Kingdom**, claimants need to “**sign on**” every other week and need to continuously document and provide their job-search activities, **either in person or via the Internet**.
- **Sweden** operates an **online monitoring procedure**, where claimants need to detail their job-search actions, including which employers were contacted and what other steps were taken to find employment, in so called “**activity papers**” that need to be submitted once a month via the **online portal of the public employment service**.

Job-search and monitoring requirements

- In **Turkey** claimants need to be available for employment but do not have to provide evidence that they are in fact also seeking employment.
- In **Poland, Chile, and Cyprus**, there is also no formal requirement for claimants to provide evidence of their job-search activities.
- **Chile**, while still not verifying job-search activities in regular intervals, now requires jobseekers to register with the national employment service (Bolsa Nacional de Empleo, BNE) and submit their CV within 96 hours.
- **Denmark** now operates an online portal, where jobseekers have to create profiles and upload their applications.

Registration Procedures

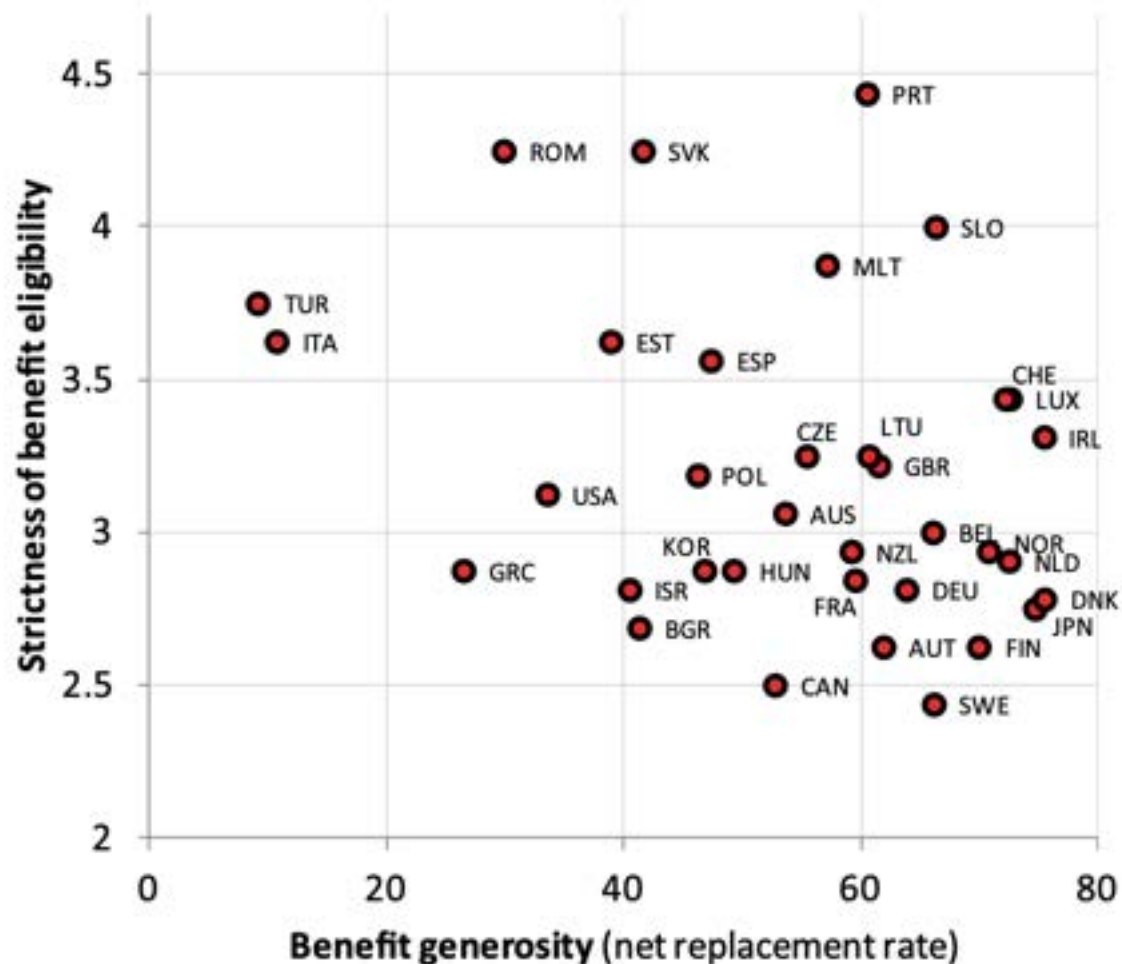
Another category of design and implementation features of unemployment benefits concern **procedural aspects** of how jobseekers **interact with public authorities** when they apply for benefits, register for job placement, arrange meetings, and obtain referrals to job vacancies.

These registration procedures and related early intervention measures do not, strictly speaking, fall into the realm of eligibility criteria but they nonetheless **shape the overall activation stance and the accessibility of support for the unemployed**.

Jobseekers may, for instance, only be able to sign up for unemployment benefits once they have registered for job placement with an employment service provider (usually a public employment service).

Balance between activation policies

NRR and benefits strictness indicator, 2010 - NO CORRELATION



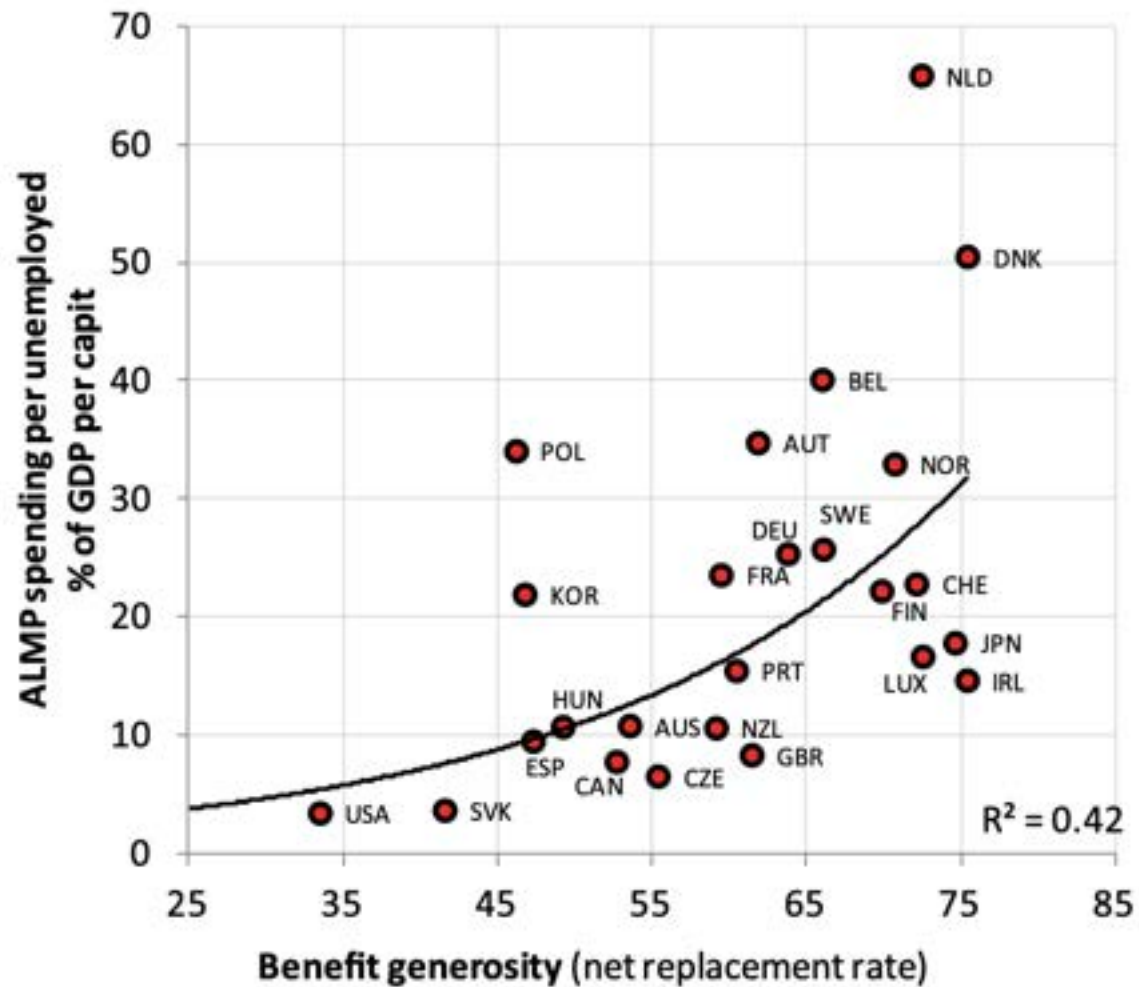
Balance between activation policies

NRR and benefits strictness indicator

- There is no indication that benefit eligibility is generally stricter in countries with generous out- of-work benefits.
- Eligibility is strict in some countries with high NRR (Slovenia, Portugal), but others with even more generous out-of-work benefits have fairly light eligibility requirements (Nordic countries, Japan). Benefits in Turkey, Romania, Estonia and Slovakia are both low and subject to demanding eligibility conditions.
- Overall, there is **no correlation**: some countries may seek to offset possible work disincentives of generous benefits (the clients' "rights") with relatively demanding client responsibilities. In others, benefits are generous (or tight) both in terms of benefit amounts and in terms of client beneficiary obligations.

Balance between activation policies

NRR and ALMPs spending, 2010 - CORRELATION



Balance between activation policies

NRR and ALMPs spending

- Apparently, there is some **correlation**: an apparent link between ALMP spending and NRR across countries. Active policy “effort” (ALMP spending), tends to be greater in countries where benefits are generous.
- Such an analysis is driven mainly by **Denmark** and the **Netherlands**, but the link remains significant when these countries are excluded.

Financial work incentives

Empirical evidence on the sensitivity of people's employment decisions to financial work incentives, such as the net income gain of working one hour more or of working at all.

- **Financial incentives affect overall labor supply** mainly through their influence on labor force participation (the decision whether or not to work), while the hours worked in a job are typically less responsive;
- **Low-income groups and lone parents react strongly to financial incentives;** and
- **Labor supply is more responsive for women than for men.**

While some general patterns can be identified, there are large country differences.

One study reports that single women in **Hungary and Poland are only about 1/4 as responsive to incentives as women in Ireland and the United Kingdom.**

Impact of activation policies on unemployed

Healing or Deepening the Scars of Unemployment? Fervers, 2019

- **Empirical analysis on *Activating Citizens*, a 2010 nationwide German counselling and monitoring programme, that involved 138,010 participants.**
- The programme essentially consisted of more **intense counselling services** and monitoring of job search behavior compared to the basic services usually delivered to unemployed workers.
- The analysis relied on register data to identify the effect of the programme, the Integrated Employment Biographies (IEB). The IEB is an administrative dataset that is commonly used in German ALMP evaluations and combines information from all social security records.

Impact of activation policies on unemployed

Healing or Deepening the Scars of Unemployment? Fervers, 2019

- Economic and sociological theory suggest that the impact of activation policies on post-unemployment job quality is similar to the impact of rudimentary unemployment benefits, namely, **quicker integration of worse quality**, hereby leading to deeper scarring effects of unemployment.
- The decisive questions were two:
 - i. whether the programme fostered market integration of recipients and
 - ii. whether this acceleration of labor market integration was paid for with **worse job quality**.

Impact of activation policies on unemployed

Healing or Deepening the Scars of Unemployment? Fervers, 2019

- Empirical proof demonstrated that the programme fulfilled its purpose of **fostering labor market integration** of participants.
- The decisive question was whether this acceleration of labor market integration was paid for with **worse job quality**. The **results did not confirm this hypothesis**. The estimated effects on wages of those who found employment were almost zero and clearly insignificant for all points in time.
- Hence, while the empirical analysis confirms that the counselling and monitoring scheme under discussion fosters **labor market reintegration**, there is **no effect on job quality**.
- It must be admitted that using wages as the only indicator of job quality seems to be a rather narrow definition of job quality.

Impact of activation policies on unemployed

Healing or Deepening the Scars of Unemployment? Fervers, 2019

- Taken together with previous research on sanctions and workfare employment, this reveals a quite interesting picture.
- **Sanctions** appear to have remarkably **negative effects on job quality**, whereas this is not the case for workfare employment and counselling and monitoring schemes.
- The implementation of sanctions is clearly based on the assumption that unemployment is due to one's own fault, whereas counselling and monitoring schemes also acknowledge that unemployment may be due to information deficits that are beyond the control of unemployed workers.

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- These findings thus add to previous research revealing that the **impact** of activation and ALMPs are contingent on fine-grained differences in the content or even the **mode of implementation**.
- **Results may differ in other institutional and economic contexts.**
- Beyond the theoretical implications, these findings reach out to the political debate on activation and ALMPs. Apparently, **policy-makers can tackle unemployment without impairing the job quality of reintegrated workers.**

Sanction provisions

Sanctions for failing to comply

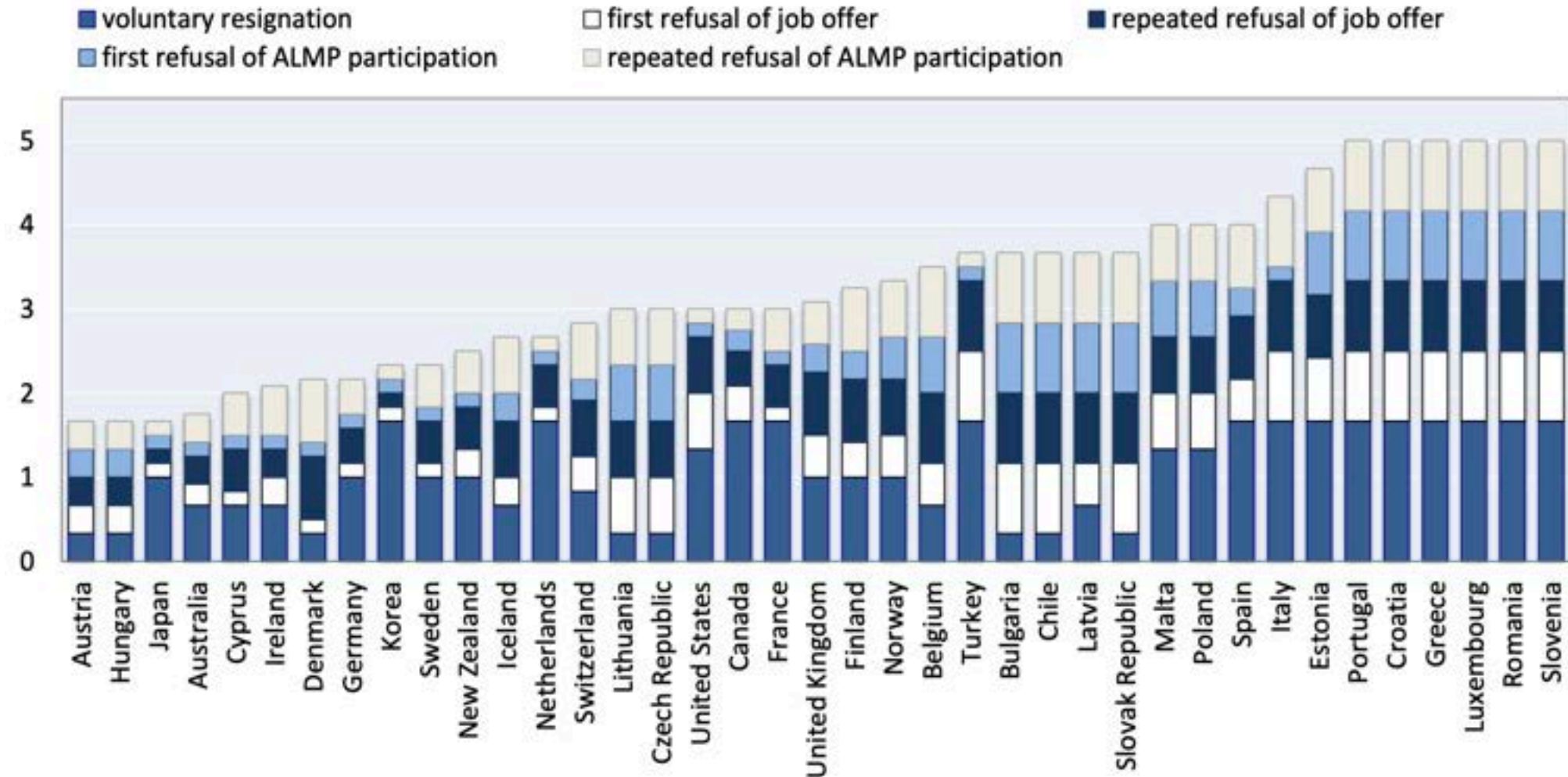
In most countries, legislation for unemployment benefits includes the possibility of sanctions when claimants do not comply with eligibility criteria. Sanctions range from a temporary reduction of benefit payments to a complete and sometimes permanent disqualification from the benefit programmes.

They are divided in **five sub-categories**.

- i. Voluntary resignation from employment.**
- ii. Refusal of suitable employment.**
- iii. Repeated refusal of suitable employment.**
- iv. Refusal of ALMP participation.**
- v. Repeated refusal of ALMP participation.**

Sanction provisions

Scored from 1 (most lenient) to 5 (most strict), 2017



Sanction provisions

- Benefit sanctions are to be applied when claimants fail to comply with any of the previously listed availability- and job-search requirements.
- Sanction provisions tend to be **strictest** in **Southern and Eastern Europe** as well as in Chile and Turkey, while they are more **lenient** in **Central and Northern Europe** as well as in Japan and Korea.
- High scores typically reflect a strong and immediate link between benefits and compliance with all relevant conditions. For instance, quitting a job voluntarily or a single refusal of a suitable job offer of work can, in these cases, lead to a complete loss of benefits.

Sanction provisions

Voluntary resignation from employment

- In **Spain, Slovenia and Romania**, claimants who are judged to have terminated their employment contract voluntarily **do not qualify** for UB at all.
- Most countries specify a number of reasons for voluntary resignations that do not result in a sanction. Belgium, Germany, Denmark, New Zealand, Sweden, or Switzerland explicitly specify a **large number of valid reasons** for voluntary resignation, while other European countries tend to be stricter in this regard.
- The **United Kingdom** leaves the decision of whether resignations were reasonable or not to the **courts**.

Sanction provisions

Refusals of suitable employment

- Sanctions for an initial refusal of a suitable job range typically between a complete disqualification from benefits to temporary and/or partial disqualification lasting a few weeks.
- A first refusal results in a disqualification for 1 week in Sweden, 2 weeks in Korea, 8 weeks in Australia, for 3 months in Spain and for 13 weeks in the United Kingdom.
- In **Croatia and Greece** workers who qualify for benefits but then refuse a job offer become **ineligible**.

Sanction provisions

Repeated refusals of suitable employment

- Where a first refusal of a suitable job does not result in an immediate disqualification from benefits, **repeated refusals** of offers of suitable jobs tend to be penalized **more harshly than initial refusals**.
- In **Sweden**, for instance, where the initial sanction is a comparatively lenient disqualification for **1 week**, subsequent refusals result in disqualifications for **2 weeks** and then **9 weeks**. A **fourth refusal** will result in a **complete disqualification** from benefits.
- Particularly steep is the increase in the United Kingdom, where sanctions increase **from 13 to 26 weeks** between the first and second refusal and finally up to **156 weeks (three years)** for a third refusal.

Sanction provisions

Refusals to participate in ALMPs

- Sanctions for refusals to participate in ALMPs tend to be either equally strict or moderately more lenient than those for refusals of work.
- In **Australia** claimants who miss appointments or commit similar failures have their **benefit payments suspended** and are given a re-connection requirement. Benefit payments resume if claimants comply with their re-connection requirement. A refusal of an offer of employment, however, is considered a “serious failure” and results in a disqualification for 8 weeks.
- In **Germany** and **Austria** the **same sanctions** as for **refusals** of work are applied.

Sanction provisions

Repeated refusals to participate in ALMPs

- As in the case with sanctions for refusals of employment, repeated refusals tend to be penalized more harshly than initial ones.
- In **Spain**, a **second** refusal is punished with a disqualification for **6 months** and the **third** one with a **complete disqualification**.
- In **Switzerland**, subsequent refusals of offered ALMP participation may be taken as a signal that the jobseeker in question is **not really available for employment**.
- In **Czech Republic** jobseekers are always disqualified for **6 months** every time they refuse an offer to participate in an ALMP.

Impact of sanctions on jobseekers

Key considerations

- There is a consensus among the empirical studies seen that **imposing sanctions does increase the transition rate from unemployment to employment.**
- The explanation given by several authors for this results is split in **two effects**, ex-ante and ex-post:
 - The **ex-ante effect** corresponds to **the fear of suffering a sanction**, which increases compliance with benefit conditionalities, including job-search.
 - The **ex-post effect** corresponds to the **reaction to being sanctioned**. Through reducing benefits, there is less value in remaining unemployed, thus incentivizing the individual to take-up a job.

Impact of sanctions on jobseekers

Key considerations

- However, more recent studies find that sanctions may also have **negative effects on job-stability and welfare**.
 - Sanctioned individuals tend to **lower their conditionalities** on accepting a new job, which may lead them to accept jobs that are worse than the previous one, sometimes temporary, paying lower wages and in which the individual may suffer human capital loss.
 - The worst conditions on which individuals have been allocated in the labor market may lead them to quickly go back to the unemployment situation.

Impact of sanctions on jobseekers

Key considerations

- If caseworkers are the ones responsible for reporting and applying sanctions, they might refrain to do it due to a possible attachment that has been created over the time with jobseekers. **To guarantee good governance, a third-party should be involved in monitoring.**
- **Sanction systems based on job-search show better results than the ones based on job-acceptance.**
- The second will punish the job-seek that has not accepted a job offer. This can give a negative incentive to looking for a job, since no job offer means not having to turn it down and getting sanctioned. It can also lead the jobseeker to accepting worse jobs.

Impact of sanctions on jobseekers

Key considerations

- The first system will only punish those jobseekers not looking hard enough for jobs, which will not create the negative incentives aforementioned.
- It is important to weight increase in expenditure on monitoring versus decrease in expenditure given out in benefits. In some cases, the trade-off is not worth-it.
- Thus, setting up a **sanction policy** is a **fine tune between monitoring and sanctioning** enough to create positive incentives for the unemployed to look for and accept job offers, while not imposing too restrictive conditions that could hinder general working and wages conditions.

Impact of sanctions on jobseekers

Other considerations across literature

- Whenever a benefit is conditional to employment situation, it becomes an unemployment benefit. For example lone-parent or disability benefits conditional to availability to work.
- Therefore, conditionalities imposed on benefits will affect not only the strictly unemployed, but a broader population which will include those who face other barriers to employment, such as the disabled.
- On the other hand, since they are harder to employ, they might be long-term unemployed, which will make them more susceptible to be penalized at some point.
 - **Considering this, “the limits of the strategy of activating disadvantaged groups by making their benefit conditional on availability for work must be kept in mind” (OECD, 2015)**

Impact of sanctions on jobseekers

Other considerations across literature

- **OECD (2015):** Some studies also explore the wider consequences of sanctions and provide evidence that there may be adverse consequences for child welfare, family welfare, and health outcomes. When sanctions are imposed for assistance benefits, some countries therefore have safeguards in the system to prevent families with children or other vulnerable claimants falling below a certain subsistence level.

Impact of sanctions on jobseekers

Lalive, R., J. van Ours and J. Zweimüller (2005), “The Effect of Benefit Sanctions on the Duration of Unemployment”, Journal of the European Economic Association, Vol. 3, No. 6, pp. 1386-1417.

Main findings:

- Results indicate that not only the actual reduction of the benefits stimulates unemployed to leave unemployment more quickly but the warning that a sanction may come has a similar and quantitatively important effect.
- Unemployment duration is shown to decrease by roughly three weeks for the sanctioned.
- Results indicate that **increasing the strictness of the sanction policy will reduce the duration of unemployment.**
- Simulations show that the average reduction in expected costs per job-seeker is about CHF 700—roughly 3.75% of total cost— due to an increase by 64% in the sanction warnings rate—the ex-ante effect.

Impact of sanctions on jobseekers

Lalive, R., J. van Ours and J. Zweimüller (2005), “The Effect of Benefit Sanctions on the Duration of Unemployment”, Journal of the European Economic Association, Vol. 3, No. 6, pp. 1386-1417.

Considerations:

- The ex ante effect is potentially more relevant than the ex post effect from a policy perspective.
- **Changing the monitoring intensity of the sanction system affects search behavior** of every job-seeker whereas changes to the severity of punishment only applies to those who have been caught shirking.
- However, of course, increased monitoring can only be achieved at the cost of hiring more case workers. If in a given culture the ex-ante effect is negligible, it may not be worth diverting part of the scarce resources from the PES to an increased monitoring system.

Impact of sanctions on jobseekers

Abbring, J., G. van den Berg and J. van Ours (2005), “The Effect of Unemployment Insurance Sanctions on the Transition Rate from Unemployment to Employment”, *Economic Journal*, Vol. 115.

Main findings:

- The authors find that **re-employment rates are significantly and substantially raised by imposition of a sanction.**
 - Individual re-employment rates of males increase by 61% in the metal industry and by 36% in the banking sector.
 - For females, these effects are 98% for the metal industry and 85% for banking.
 - Estimates on data in which the metal and banking industries are pooled with other industries suggest economy-wide sanction effects of 58% for males and 67% for females.

Impact of sanctions on jobseekers

Abbring, J., G. van den Berg and J. van Ours (2005), “The Effect of Unemployment Insurance Sanctions on the Transition Rate from Unemployment to Employment”, *Economic Journal*, Vol. 115.

Considerations:

- The effect of the imposition of a sanction can be thought of as being due to **two changes on a deeper level**:
 - I. The **decrease** in the **UI benefits** level, and
 - II. The **increase** in the **search intensity** caused by the **threat** of severe additional **sanctions** and by the provision of information to the unemployed.

Impact of sanctions on jobseekers

McVicar, D. (2008), “Job Search Monitoring Intensity, Unemployment Exit and Job Entry: Quasi-Experimental Evidence from the UK”, Labour Economics, Vol. 15, No. 6, pp.

1451-1468.

Main findings:

- Exogenous periods of suspension of job search monitoring led to significantly lower exit rates from registered unemployment and increased average claim duration. More specifically, the **suspension of monitoring led to a robust and significant reduction in job entry amongst the male unemployed.**
- Suspension of monitoring leads to fewer exits from registered unemployment to states other than employment.
- The overall picture is that **suspension of monitoring has a robust negative impact on the single risk hazard rate for exits from unemployment** corresponding to an increase in average unemployment duration of between 10% and 19%.

Impact of sanctions on jobseekers

McVicar, D. (2008), “Job Search Monitoring Intensity, Unemployment Exit and Job Entry: Quasi-Experimental Evidence from the UK”, Labour Economics, Vol. 15, No. 6, pp. 1451-1468.

Considerations:

- The findings from this article corroborate the previous findings that there is a **positive correlation between monitoring and suspension and the exit from unemployment situation.**

Impact of sanctions on jobseekers

Arni, P., R. Lalive and J. van Ours (2013), “How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit”, *Journal of Applied Econometrics*, Vol. 28, pp. 1153-1178.

Main findings:

- Findings for the ex post effects of benefit sanctions suggest that, consistent with job search theory, **benefit warnings and reductions increase the rate of leaving unemployment.**
- Yet there is also a significant reduction in post-unemployment earnings, possibly because of lower reservation wages.
- On net, the positive effects of leaving unemployment more quickly do not outweigh these negative effects of benefit sanctions.
- On average, **unemployed accept a job offer more quickly at the cost of a reduced employment stability and/or lower earnings.** This cost is financially more important for the individual than her/his gain in terms of earlier unemployment exit.

Impact of sanctions on jobseekers

Arni, P., R. Lalive and J. van Ours (2013), “How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit”, *Journal of Applied Econometrics*, Vol. 28, pp. 1153-1178.

Main findings:

- In terms of **ex ante effects**, they find that job seekers who are confronted with higher warning probabilities leave unemployment more quickly. Yet again, **faster exit from unemployment is accompanied by lower earnings**, leading to a **net reduction in post-unemployment earnings**.
- Regarding warning and enforcement effects, they find that while mere warnings increase the rate of leaving unemployment, they do not affect employment and non-employment durations. In contrast, actual benefit reductions not only lead to a faster exit from unemployment but they also tend to reduce the duration of employment thereafter.

Impact of sanctions on jobseekers

Arni, P., R. Lalive and J. van Ours (2013), “How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit”, *Journal of Applied Econometrics*, Vol. 28, pp. 1153-1178.

Main findings:

- There is a clear persistence of negative sanction effects on earnings up to two years after unemployment exit. This may be explained by lock-in into the accepted job or by faster return to unemployment. Moreover, individuals who accept a worse-paid job are more likely to leave that job and return to unemployment.
- They find that a benefit sanction reduces income by 6.2% or by 6.9% per month of reduced unemployment duration.
- The policy of increased monitoring and warning also reduces a job seeker 's income by 1.5% or by 4.9% per month of reduced unemployment duration.

Impact of sanctions on jobseekers

Arni, P., R. Lalive and J. van Ours (2013), “How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit”, *Journal of Applied Econometrics*, Vol. 28, pp. 1153-1178.

Considerations:

- Are sanctioned job seekers able to leave unemployment for jobs that are as stable and as well paid as those for non-sanctioned job seekers?
- If job seekers search harder for a new job and find one earlier, their skills depreciate less, and they will be offered better jobs because they have spent less time in unemployment. However, to the extent that a reduction of the reservation wage leads to acceptance of lower-quality jobs, wage loss and reduced job duration may be expected.

Impact of sanctions on jobseekers

Arni, P., R. Lalive and J. van Ours (2013), “How Effective Are Unemployment Benefit Sanctions? Looking Beyond Unemployment Exit”, *Journal of Applied Econometrics*, Vol. 28, pp. 1153-1178.

Considerations:

- Activating unemployed workers through the introduction of a system of benefit sanctions may be relatively cheap and effective in bringing unemployed people back to work more quickly. However, **a comprehensive policy evaluation** of such a system should not only consider direct effects in terms of reduced unemployment durations and reductions in benefit payments, but also consider **indirect effects in terms of employment stability, earnings and attachment to the labor market.**
- The authors conclude that the ex-ante effect of the system has less negative consequences for post-unemployment earnings than the ex post effect. Keeping in mind that benefit sanctions in the Swiss system entail full reduction of benefits (i.e. a penalty of 100%) they suggest that the current system of benefit sanctions can be improved at the margin by reducing the size of benefit sanctions and **increasing monitoring intensity.**

Impact of sanctions on jobseekers

Van den Berg, G. and J. Vikström (2014), “Monitoring Job Offer Decisions, Punishments, Exit to Work, and Job Quality”, *Scandinavian Journal of Economics*, Vol. 116, No. 2, pp. 284-334.

Main findings:

- They show that in the Swedish case, sanctions upon the rejection of job offers are severe, in the sense that punished individuals end up in significantly less attractive jobs than unpunished individuals. This difference is persistent up to the end of the observation window, which can be as much as five years after unemployment.
- **Sanctions have adverse effects on post-unemployment outcomes:**
 - On average, they cause individuals to accept jobs with a lower hourly wage and fewer working hours per week.
 - **The estimated average reduction in the accepted wage is 4%.**
 - **The probability to move into full-time employment decreases by about 15%.**

Impact of sanctions on jobseekers

Van den Berg, G. and J. Vikström (2014), “Monitoring Job Offer Decisions, Punishments, Exit to Work, and Job Quality”, *Scandinavian Journal of Economics*, Vol. 116, No. 2, pp. 284-334.

Main findings:

- Furthermore, **post-unemployment outcomes are also affected in the long run.**
 - Sanctions causally increase the likelihood of the acceptance of a job at a lower occupational level. Such decisions are to some extent irreversible, in which case they involve a permanent loss of human capital
 - From a present-value point of view, this means that **sanctions entail a substantial welfare loss** for at least some of those who have been punished.
- Concerning the **effects of sanctions on the transition rate into work, they find a significant positive effect of an average, 23% increase.**

Impact of sanctions on jobseekers

Van den Berg, G. and J. Vikström (2014), “Monitoring Job Offer Decisions, Punishments, Exit to Work, and Job Quality”, *Scandinavian Journal of Economics*, Vol. 116, No. 2, pp. 284-334.

Considerations:

- Every monitoring system has sanctions that involve a negative income effect. Hence **adverse effects of sanctions on post-unemployment outcomes can be expected in any system**. However, the theoretical results imply that the size of these adverse effects is larger in a system with monitoring of job offer decisions than in a system with monitoring of search effort.
- With full compliance after a realized punishment, the system with monitoring of job offer decisions entails that punished individuals now have to accept jobs with the least attractive characteristics, whereas the other system entails that punished individuals have to search harder for any possible job.
- An additional problem with the monitoring of job offer decisions is that it can **push individuals to prevent sanctions by reducing their search effort to zero**.

Impact of sanctions on jobseekers

Van den Berg, G. and J. Vikström (2014), “Monitoring Job Offer Decisions, Punishments, Exit to Work, and Job Quality”, *Scandinavian Journal of Economics*, Vol. 116, No. 2, pp. 284-334.

Considerations:

- In addition, the system would benefit if monitoring were carried out by a different individual than the case worker who provides job search assistance.
- In Sweden sanctions do not exert a strong ex ante threat effect because of the reluctance of case workers to report violations.
- It is plausible that a **policy change where the focus on monitoring switches to search effort and where the monitoring is no longer performed by the case worker would create a threat effect that increases the exit-to-work rate before punishment, and as such would lead to a reduction of unemployment.**

Conclusions

- Although knowledge gaps remain, the experience in the OECD area provides useful pointers for World Bank client countries seeking to strengthen activation policies.
- **Well-designed policies** can have a **positive impact on employment outcomes** for participants, but that many existing policies have failed.
- The impact of individual programs on aggregate employment or beneficiary caseloads is often fairly modest. This is not necessarily surprising and need not be discouraging given that most measures are highly targeted, investment of public resources is limited, and program durations are short.
- Setting up a **sanction policy** is a **fine tune between monitoring and sanctioning** enough to create positive incentives for the unemployed to look for and accept job offers, while not imposing too restrictive conditions that could hinder general working and wages conditions.

ANNEX



CASE STUDIES: THE SWISS SYSTEM

*as of 2013

Eligibility

Contributions

- have paid unemployment insurance taxes for at least six months in the two years prior to registering at the public employment service (PES)
- The contribution period is extended to 12 months for those individuals who have been registered at least once in the three previous years
- Job seekers entering the labor market are exempted from the contribution requirement if they have been in school, in prison, employed outside of Switzerland or have been taking care of children

Employability

- Job seekers must possess the capability to fulfil the requirements of a regular job
 - If a job seeker is found not to be employable there is the possibility to collect social assistance
 - Social assistance is means tested and replaces roughly 76% of unemployment benefits for a single job seeker with no other sources of earnings

A Minimum number of applications for 'suitable' jobs each month.

Suitable meaning:

1. the travel time from home to job must not exceed 2 hours
2. the new job contract cannot specify longer hours of availability than are actually paid
3. the new job must not be in a firm which lays off and re-hires for lower wages
4. the new job must pay at least 68% of previous monthly earnings.

Monitoring

- Upon registration, jobseekers are assigned to a caseworker on the basis of either previous industry, previous occupation, place of residence, alphabetically or the caseworker's availability
- Jobseekers must meet at least once a month with the caseworker
- Compliance with the job search and program participation requirements is monitored by roughly 2500 caseworkers at 150 PES offices
- Jobseekers are typically required to apply to about 10 vacancies per month. Caseworkers may adjust this target on a case-by-case analysis
- Participation in labor market programs are monitored by the caseworker.
 - Program supplier only gets paid for the actual number of days a job seeker attends the program

Duration

- The length of unemployment benefits is of up to two years for individuals who meet the contribution and employability requirements
 - After the two years, beneficiaries are moved to receiving social assistance instead

Replacement ratio

- The replacement ratio is 80% in general, and 70 % for job seekers who earned more than CHF 4030 prior to unemployment and are not caring for children
- Beneficiaries must pay all earnings and social insurance taxes except the unemployment insurance tax rate (which stands at about 2%)

CASE STUDIES: THE SWISS SYSTEM

*as of 2013

Sanctions

The process until a sanction is imposed can be divided in two phases:

- The first one starts when some type of misconduct by the jobseeker is detected and reported to the Cantonal Ministry of Economic Affairs (CMEA), by the caseworker, by a possible employer, or by the ALMP staff.
 - If the jobseeker is reported, he or she must be notified of the possibility of a sanction and be given the opportunity to clarify event and explain the misconduct or lack of compliance.
 - The notification must be in written form and contain the reasons for the reporting and the deadline for clarification to be sent back.
 - The average time elapsed between the date the jobseekers is informed and the date by which the clarification is to be received is two weeks.

- The second phase begins after the clarification date has expired. The CMEA may or may not accept the clarifications given by the jobseeker, depending on the grounds.
 - If the CMEA accepts the excuse, the process stops here.
 - If the CMEA does not accept it, then a sanction is imposed.
 - Sanctions in this case entails the benefit suspension for up to 60 working days.
 - The CMEA has a period of 6 months to enforce the decided suspension of payments, starting on the date of the alleged infraction.
- The jobseeker has 30 days from the beginning of payment suspension to appeal to the cantonal court
- The court may take one year or more to reach a decision on the validity of the sanction.
- The sanction process is confidential: nor the caseworker or prospective employers will know about the decision reached within the CMEA or even if the jobseeker has been warned. Jobseekers are also not required to disclose this information.

CASE STUDIES: THE SWEDISH SYSTEM

*as of 2014 - Replacement ratio updated accordingly to 2020

Eligibility

Unemployed in Sweden are entitled to Unemployment Insurance if they fulfill the following conditions:

- Have contributed to the UI fund for at least 12 months, and have been employed for at least 6 of these months (for at least 80 hours per calendar month);
- To be registered at the Swedish PES;
- To be able and willing to work for at least 3 hours a day, or 17 hours a week and actively looking for a new employment;
- If the jobseeker finds a retains a job for at least six months, he or she may qualify for a new UI period.

Replacement Ratio

- The replacement ratio for the ones meeting the criteria above is of 80% of previous income, for the first 100 days of unemployment. This amount is capped at SEK 910 per day (~USD 104)
- After the first 100 days, the replacement ratio falls to 70% of the previous job income, capped at SEK 760 per day (~USD 87)
- Jobseekers having worked less than full-time have their UI adjusted proportionally to hours worked.
- The maximum period for receiving UI benefits in Sweden is of 300 days. Parents who have children under 18 are eligible to a 150 days extension
- The beneficiary can choose to collect the UI with or without interruptions

Monitoring

- In Sweden, it is the caseworker who monitors its respective jobseeker, and verifies if he or she is searching jobs accordingly, attending to the assigned ALMPs and accepting or not suitable job offers.

Sanctions

- The caseworker is also responsible for taking the initiative to file for sanction
 - He or she will first contact the jobseeker to get clarifications on the possible breach of guidelines;
 - If the explanation does not justify the breach, the caseworker will report to the UI fund;
 - The UI fund will decide on whether to impose a sanction. Literature show that in the vast majority of cases, the sanctions are approved and imposed;
 - It is possible for the jobseeker to appeal against a sanction at the county administrative court. However, the sanctions are very rarely reversed.
- Sanctions in Sweden correspond to a reduction of benefits for a defined period of time, as a penalty for breach of recipient guidelines.
 - First time offenders will have a benefit reduction of 25% for 40 days
 - Second time offenders will suffer a cut of 50% for 40 days
 - Third time offenders will suffer the suspension of benefits until the next period of eligibility to UI benefits;

van den Berg, G. and J. Vikström (2014)